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SUBJECT: FORMER PM KASYANOV DOWNBEAT ON COSTS OF WAR,
OPPOSITION PARTIES

REF: MOSCOW 2550

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d).

¶1. (C) Summary: In an August 28 meeting, Ambassador and former PM Mikhail Kasyanov discussed the Russian-Georgian conflict, its economic consequences, and the future electoral prospects for liberal opposition parties. Kasyanov, who heads the liberal Russian People's Democratic Union (RNDS) party, argued that Russia had employed disproportionate force against Georgia and should withdraw its troops from Georgia. According to Kasyanov, the Russian people -- fed only propaganda from pro-Kremlin media -- did not realize the Western stance toward Georgia before the conflict. Kasyanov added that the potential economic fallout from the conflict could lead to international investor skepticism and broader financial repercussions. Regarding opposition parties, Kasyanov observed that most Russians are too afraid to oppose the government publicly, which limits opposition effectiveness. Kasyanov described himself and his party as the true voices of democracy in Russia. Kasyanov also revealed that he had canceled his planned September trip to Washington. End Summary.

Economic Costs of "Disproportionate" War, Lower Oil Prices

¶2. (C) Opening a wide-ranging discussion with the Ambassador August 28, former PM Kasyanov stated firmly that Russia should withdraw its troops immediately from Georgian territory, adding that Russia's actions against Georgia had been aggressive and disproportionate. The "buffer zone" that Russia aspires to create in Georgia, he added, does not reflect a "real zone" in any meaningful sense that keeps Russian troops off Georgian soil. Kasyanov acknowledged, however, that Russia's actions are now a fait accompli, which he predicted will beget numerous negative consequences.

¶3. (C) Ambassador discussed the difference between broad Russian popular support for actions against Georgian President Saakashvili and less-than-unanimous support for recognition of Abkhazia and South Ossetia, noting that Russians may feel differently about the long-term costs of the latter. Kasyanov agreed that the financial costs of recognition would be enormous for Russia. The sharp decline of the Russian stock market after the conflict began, Kasyanov observed, has "left the business community depressed," and a continuing economic downturn would threaten to "destroy their business structures." For example, Kasyanov said, deflated stock prices and decreased investor confidence could result in major margin calls. Kasyanov predicted that after the new fiscal quarter begins on October 1 investors will begin to pull money out of Russia, which would result for the first time in years in a weaker ruble and shrinking foreign reserves.

¶4. (C) Kasyanov said that decreasing oil prices worry him the most, however. Although oil prices remain above 100 USD

per barrel, Kasyanov said that the price has dropped sharply this summer. According to Kasyanov, Russia will have significant difficulties financing its deficit if oil drops to near 70 USD per barrel because the Russian budget assumes oil prices above 67 USD per barrel. Looking at the mid-term, Kasyanov warned that lower oil prices together with investor angst stemming from the Georgian conflict would lead to inadequate refinancing and then "within one to two years there will be serious problems" because "state monopolies have destroyed competition" that otherwise could buoy the economy. The added direct costs of the war with Georgia and of supporting Abkhazia and South Ossetia would compound these difficulties, Kasyanov said. "Russian leaders are unprincipled," Kasyanov noted, observing that in Russia money equals power and the current Russian leadership is not overly concerned with the economic hardships of average Russians. Instead, he added, prestige and money are the leadership's goals.

Nervous Neighborhood: Ukraine and Belarus

15. (C) Ambassador noted some analysts' view that the situation in the Caucasus would freeze as it did in Cyprus, with the more worrisome prospect now being possible Russian provocations toward Ukraine. For example, Russia could begin issuing Russian passports to Ukrainians as Russia did in South Ossetia. Kasyanov agreed that Ukraine poses a serious situation that requires close observation. Noting the role of Europe in resolving the current situation, Kasyanov observed that the European Parliament now realized that everything is not normal in Russia. Kasyanov said that he

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was not convinced that Europe knows how to deal with Russia, with one exception: German Chancellor Merkel. "She is the only one in Europe who can quietly say strong things" since "she understands how to treat Russians." Kasyanov also speculated that the Russia-Georgia conflict may lead Belarusian President Lukashenko to open more to the West now that he has witnessed Russian aggression against a former Soviet republic. "Lukashenko was shocked to see that he could be next," Kasyanov observed, adding that the Belarusian leader may now consider it wiser to democratize rather than face Russian tanks down the road.

16. (C) Ambassador said that the United States does not seek a relationship of enmity with Russia, but the conflict would have consequences for bilateral relations. Russians, according to Ambassador, perceive the situation now as "everyone versus us." Kasyanov agreed that such negative relations and perceptions are unfortunate. However, this current row is not permanent since Russian "government elites are not ideological opponents of the West" as they were in Soviet times.

17. (C) Explaining how the conflict had unfolded with such strong Russian public support, Kasyanov stated that Russians "did not understand Georgia or its Rose Revolution." For this reason, 90 percent of Russians oppose Saakashvili because of what they perceive as the Georgian leader's unilateral actions, even if they were provoked by Russia. Without access to a free mass media (in particular television), Russians did not know enough beforehand about the West's position on Georgia to understand that the United States would not instigate a war in Georgia. "People who see Western media, BBC or CNN, see the other side," Kasyanov remarked. Ambassador confirmed that the USG in no way encouraged Saakashvili to act militarily against Russia.

Opposition Prospects Low

18. (C) Ambassador raised the prospects for liberal opposition parties in Russia, asking about the recent August 19 joint statement signed by Kasyanov, Vladimir Ryzhkov of

the Republican Party, and Nikita Belykh of the Union of Right Forces (SPS). Kasyanov described a recent rally held on August 22 (Russian National Flag Day) at the White House in Moscow, which he described as peaceful but underattended (see reftel: Only 500 people attended despite Kasyanov's prediction that more than 1,000 would come). A major problem, Kasyanov lamented, is that Russians are afraid to oppose the ruling government publicly. When pressed on whether other members of the new liberal party coalition are speaking out enough to encourage wider public opposition, Kasyanov quickly and firmly responded, "No." Kasyanov identified Yabloko leader Sergey Mitrokhin in particular as unwilling to do any heavy lifting for the liberal opposition.

(Note: Mitrokhin's signature was conspicuously missing from the August 19 joint statement.) Kasyanov described himself as alone in being a voice for democracy in Russia. In an aside to the Ambassador, Kasyanov also noted that many in Russia believe that he is an American spy because of his ties to the West and government opposition.

Canceled Trip to United States

¶9. (C) Kasyanov informed Ambassador that he had canceled his planned trip to Washington in September ("I was advised that this was not the best time" by his U.S. hosts) but hopes to reschedule at some point.

¶10. (C) COMMENT: Kasyanov is one of Russia's more outspoken liberal opposition voices, and he was frank in criticizing the Russian leadership for its limits of press freedoms and its inability to comprehend long-term economic consequences. However, Kasyanov is unable to muster more than minimal support to his cause, and his opposition now to the hugely popular war with Georgia will not engender new support among Russians. The intermittent unity of the deeply fractured opposition parties leaves little hope for them to make any inroads on the public support and legislative bloc of the major "ruling parties" and the Communists. Kasyanov's statement that he is a lone voice for democracy succinctly captures that disunity, since it is exactly what Yabloko's Mitrokhin said about himself at his own August 21 press conference. However, Kasyanov's experience as Finance Minister, Prime Minister and now owner of a large consulting firm make him uniquely credible regarding economic trends in Russia.

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